1 April 2020

Global Equity Update

Portfolio positioning (as at 31 March 2020)

We have taken action to increase the defensiveness of the Global Equity Portfolio and have increased the cash in the strategy from 6% to 17%. We have been surgical in selling down positions that we feel are more exposed in this environment.

To date, our Global Equity Portfolio has proven resilient relative to markets. We believe the portfolio has numerous advantages to weather this situation. These include:

- We have about 62% of our portfolio in 12 companies and cash that are likely to prove resilient through the shutdown and during a subsequent economic downturn;
  - Cash is at 17% (held in US dollars);
  - We hold meaningful investments in defensive businesses (27% of the portfolio) that are likely to prove resilient in this environment including three US utilities (Eversource Energy, Xcel Energy and WEC Energy), a US-based telecom-infrastructure company (Crown Castle International), three consumer staples (Nestlé, RB and PepsiCo) and a Swiss-based pharmaceutical company (Novartis);
  - Our investments in enterprise software companies (Microsoft and SAP of Germany) and our Chinese platform technology companies (Alibaba and Tencent) are likely to be resilient in this environment. These investments represent 19% of our portfolio;
- We have 11% of the portfolio in two technology investments with more cyclical exposure (Alphabet and Facebook). While economic activity and advertising will decline, we think this downturn could prove an accelerant to their business models. These companies are additionally well positioned to weather the downturn due to their financial strength;
- We have 10% of the portfolio in three quick-service restaurant companies (McDonald's, Starbucks and Yum! Brands). These businesses face a challenging situation during the next two to six months due to the social-distancing measures being implemented around the world. We note that their drive-throughs and delivery remain open in many markets. Post the crisis, we believe these businesses should recover strongly and are likely to prove resilient to an economic downturn;
- We have 7% of the portfolio in the two leading payment platforms (Mastercard and Visa). While demand will be hit by the economic downturn, we consider these companies have strong long-term prospects and are well positioned to weather the downturn due to their financial strength;
- We have 6% of the portfolio in two luxury companies (Estée Lauder of the US and LVMH of France). The demand for their products is inherently more discretionary in nature and the blow to their businesses will depend upon the depth of the economic downturn. We note that these companies own some of the world's strongest brands, have solid balance sheets and benefit from sourcing about 33% of sales from Chinese consumers. We think China is one of the best-placed economies to recover from this situation; and
- The remainder of the portfolio (4%) is in a range of businesses (such as brewing and hospitals) and none of the holdings is likely to materially affect the performance of the portfolio.

We are monitoring the strength of the balance sheet of each company in our portfolio and, in particular, the ability of our companies to withstand an extended economic slump. There are three businesses in the portfolio with meaningful financial leverage. These in aggregate represent 6% of the portfolio.

Importantly, our Global Equity Portfolio holds few or no investments across industries that are the most vulnerable to this crisis. The portfolio does not hold any banks, energy companies, airlines, travel-related companies or property trusts. The portfolio has no direct exposure to emerging markets, other than China. We estimate our indirect exposure to emerging markets, excluding China, represents 12% of the portfolio.

This is a complex, fast-moving and unprecedented situation and we will continue to manage the portfolio to protect capital of investors. As Warren Buffett has said: "To finish first, you must first finish."